

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L REYKJAVIK 1153

E.O. 11652: GDS
TAGS: PINT, IC
SUBJECT: GOVERNMENT FORMATION TALKS AT CRUCIAL POINT

REF: REYKJAVIK 1141 DTG 291800Z AUG 78

SUMMARY: THREE-PARTY TALKS AMONG PROGRESSIVE PARTY (PP),
SOCIAL DEMOCRATIC PARTY (SDP), AND PEOPLE'S ALLIANCE (PA)
UNDER LEADERSHIP OF PP CHAIRMAN OLAFUR JOHANNESSEN HAVE NOW COME
DOWN TO WIRE. JOHANNESSEN SCHEDULED TO MEET AUGUST 31 WITH
PRESIDENT ELDJARN EITHER TO ANNOUNCE THAT PARTIES HAVE AGREED TO
FORM PP-SDP-PA COALITION OR TO RETURN MANDATE. CHAIRMEN OF ALL
THREE PARTIES HAVE EXPRESSED OPTIMISM THAT AGREEMENT CAN BE
REACHED TODAY AND THAT NEW GOVERNMENT CAN TAKE OVER AS EARLY
AS AFTERNOON AUGUST 31. OPPOSITION TO PROPOSED AGREEMENT WITHIN
SDP NOW SEEMS ONLY MAJOR OBSTACLE TO FORMATION OF
PP-SDP-PA GOVERNMENT. END SUMMARY.

1. NEGOTIATIONS AMONG PARTIES CONTINUED ON AUGUST 29
UNTIL MIDNIGHT, AND THEN RESUMED FOR ALL DAY SESSION THIS
MORNING (AUGUST 30). IT IS NOT CLEAR HOW MANY ISSUES
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REMAIN UNSETTLED. EMBASSY UNDERSTANDS THAT AS LATE AS
YESTERDAY EVENING AN AGREED STATEMENT ON DEFENSE AND FOREIGN
AFFAIRS MATTERS HAD NOT BEEN DRAFTED AND THAT SEVERAL OTHER
ISSUES HAD NOT YET BEEN ADDRESSED. REGARDING ALLOCATION OF
MINISTRIES, WE HAVE HEARD THAT SDP HAS GIVEN GRUDGING ACCEPT-
ANCE OF JOHANNESSEN AS PRIME MINISTER AND THAT AT LEAST TWO
OTHER IMPORTANT MINISTERIAL CHAIRS HAVE ALSO BEEN GIVEN OUT

(SDP CHAIRMAN BENEDIKT GRONDAL AS FOREIGN MINISTER AND PA MP GEIR GUNNARSSON AS FINANCE MINISTER). MOMENTUM HAS BEEN BUILDING OVER LAST 48 HOURS, AND IT IS QUITE POSSIBLE THAT NEGOTIATORS CAN WRAP UP FINAL AGREEMENT TODAY. DELICACY OF TODAY'S TALKS COMES NOT FROM WHAT MAY HAPPEN AT NEGOTIATING TABLE BUT FROM WHETHER SDP WOULD BE WILLING TO ACCEPT FINISHED PRODUCT.

2. FOR REASONS OF HIS OWN, GRONDAL HAS REPORTEDLY GIVEN IN TO DEMANDS FROM PP AND PA COUNTERPARTS ON NUMBER OF POINTS CONCERNING ECONOMIC AND OTHER DOMESTIC ISSUES. HE IS ANXIOUS TO CONCLUDE TALKS, PERHAPS FEARING THAT THIS IS LAST CHANCE TO FORM LEFT-OF-CENTER COALITION. HOWEVER, MANY SOCIAL DEMOCRATS ARE OPPOSED TO THIS APPROACH. SEVERAL MEMBERS OF SDP PARLIAMENTARY GROUP PREFER TO ABANDON THIS EFFORT AND START FROM SCRATCH RATHER THAN GIVE IN ON ISSUES THAT PARTY PLATFORM HAD ENDORSED: ELECTORAL REFORM, AGRICULTURAL POLICY, AND, MOST IMPORTANTLY, LONG TERM ECONOMIC PROGRAM. (ONE MP CONFIDED TO EMBOFF THAT SOME MEMBERS OF SDP PARLIAMENTARY GROUP HAVE HELD PRIVATE TALKS WITH INDEPENDENCE PARTY (IP) WITH AIM OF GETTING IP SUPPORT FOR SDP MINORITY GOVERNMENT). GRONDAL, WHOSE OPPOSITION TO COOPERATION WITH IP IS OF MANY YEARS' STANDING, HAS PUBLICLY COMMITTED HIMSELF TO GOING ALONG WITH PA AND PP. SOCIAL DEMOCRATS NOW TORN BETWEEN UPHOLDING PARTY'S STATED POLICY OBJECTIVES AND AVOIDING MAJOR EMBARRASSMENT TO

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THEIR CHAIRMAN.

3. AT LEAST ONE PROMINENT MEMBER OF SDP PARLIAMENTARY GROUP HAS STATED PUBLICLY THAT HE COULD NOT SUPPORT PROPOSED COALITION BASED UPON DRAFT AGREEMENT THAT JOHANNESSON PUT ON TABLE AUGUST 29. SEVERAL OTHER MPS HAVE TOLD US SAME PRIVATELY. WHAT HAPPENS WHEN SOCIAL DEMOCRATS GET DOWN TO CRUNCH, HOWEVER, MAY BE ANOTHER MATTER. PARLIAMENTARY GROUP DUE TO MEET TODAY ON AGREEMENT (IF IT IS READY), AND SDP CENTRAL COMMITTEE SCHEDULED TO MEET THEREAFTER TO MAKE PARTY'S FINAL DECISION RE PARTICIPATION IN COALITION.

4. IF COALITION AGREEMENT IS SIGNED, SEALED, AND DELIVERED TO PRESIDENT ELDJARN TOMORROW, HE IS EXPECTED TO CALL TOGETHER GOVERNMENT OF PRIME MINISTER GEIR HALLGRIMSSON AND RELIEVE HIM OF RESPONSIBILITY. ELDJARN WOULD THEN CALL FOR MEETING OF NEW CABINET AND GIVE DESIGNATED PRIME MINISTER AUTHORITY FOR CONDUCT OF GOVERNMENT AFFAIRS. THUS THERE IS POSSIBILITY THAT NEW GOVERNMENT COULD BE IN OFFICE BEFORE SEPTEMBER 1.

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